

SIDLEY & AUSTIN
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

CHICAGO
DALLAS
LOS ANGELES
NEW YORK

1722 EYE STREET, N.W.
WASHINGTON, D.C. 20006
TELEPHONE 202 736 8000
FACSIMILE 202 736 8711

HONG KONG
LONDON
SHANGHAI
SINGAPORE
TOKYO

FOUNDED 1866

WRITER'S DIRECT NUMBER
(202) 736-8198

WRITER'S E-MAIL ADDRESS
thynes@sidley.com

July 25, 2000

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

RECORDATION NO. 23017 FILED
JUL 25 '00 2-17 PM
TS
SURFACE TRANSPORTATION BOARD

Dear Mr. Williams:

I have enclosed an original and one counterpart of the document described below, to be recorded pursuant to Section 11301 of Title 49 of the U.S. Code.

This document is a General Security Agreement, a primary document, dated July 24, 2000.

The names and addresses of the parties to the document are as follows:

DEBTOR:

3517021 Canada Inc.
Suite 1800, Bankers Hall East
855 2nd Street
Calgary, Alberta T2P 4Z5

SECURED PARTY:

Kreditanstalt für Wiederaufbau
Palmengartenstrasse 5-9
D 60325 Frankfurt am Main
Germany
Attention: Department KIIC

Mr. Vernon A. Williams
July 25, 2000
Page 2

A description of the equipment covered by the document follows:

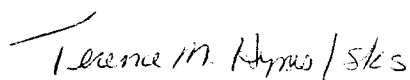
| <u>Make</u> | <u>Model</u> | <u>Type</u> | <u>Road Number</u> |
|----------------|----------------|-----------------|------------------------------|
| General Motors | SD-90 MAC 4300 | Diesel Electric | CP9100 to CP9160 (inclusive) |
| General Motors | SD-90 MAC 6000 | Diesel Electric | CP9300 to CP9303 (inclusive) |

A fee of \$26.00 is enclosed. Please return the original and any extra copies not needed by the Board for recordation to the person hand-delivering the documents.

A short summary of the document to appear in the index follows:

General Security Agreement dated as of July 24, 2000, between 3517021 Canada Inc. ("Debtor") and Kreditanstalt fur Wiederaufbau ("Secured Party"), pertaining to Sixty-One Model SD-90 MAC 4300 Locomotives bearing Road Numbers CP9100-CP9160, inclusive, and Four Model SD-90 MAC 6000 Locomotives bearing Road Numbers CP9300-CP9303, inclusive.

Sincerely,



Terence M. Hynes

Enclosures

GENERAL SECURITY AGREEMENT

Dated as of July 24, 2000

Between

**3517021 CANADA INC.
as Debtor**

RECORDATION NO. 23017 FILED

JUL 25 '00 2-17 PM

SURFACE TRANSPORTATION BOARD

- and -

**KREDITANSTALT FÜR WIEDERAUFBAU
as Secured Party**

**Pertaining to Sixty-Five Model SD90MAC Locomotives bearing
Road Numbers CP9100 to 9160 and CP9300 to CP9303**

**Memorandum of General Security Agreement dated as of July 24, 2000 filed
with the Surface Transportation Board pursuant to 49 U.S.C. §11301 on July ____, 2000
at ____ A.M. Recordation Number _____ and deposited in the Office of the
Registrar General of Canada pursuant to Section 105 of the *Canada Transportation Act*
on July ____, 2000 at ____ A.M.**

GENERAL SECURITY AGREEMENT

THIS GENERAL SECURITY AGREEMENT is made as of the 24th of July, 2000, between **3517021 CANADA INC.** (the “Debtor”) in favour of **KREDITANSTALT FÜR WIEDERAUFBAU** (the “Secured Party”).

FOR VALUABLE CONSIDERATION (the receipt and sufficiency of which are acknowledged), the Debtor agrees, acknowledges, represents and warrants in favour of the Secured Party as follows:

1. INTERPRETATION

1.01 Definitions

Each word and phrase used in this Security Agreement and which is defined in Schedule A has the meaning assigned to them in Schedule A. Words and phrases defined in the PPSA and used without initial capitals in this Security Agreement (including in Schedule A) have the meanings assigned to them in the PPSA, unless otherwise specified herein or unless the context otherwise requires. Each word and phrase defined in the Loan Agreement used herein and which are not defined herein have the respective meanings assigned to them in the Loan Agreement.

1.02 Statutes

A reference in this Security Agreement to a statute refers to that statute as it may be amended, and to any restated or successor legislation of comparable effect.

1.03 Headings and References

The division of this Security Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Security Agreement. The Article and Section headings in this Security Agreement are not intended to be full or accurate descriptions of the text to which they refer and shall not be considered part of this Security Agreement. Unless the context otherwise requires, references to an Article, Section, Subsection or Schedule refer to the applicable article, section, subsection or schedule of this Security Agreement.

1.04 Number and Gender

In this Security Agreement, where the context so requires, words (including defined terms) in the singular include the plural and vice-versa, and words in one gender include all genders.

1.05 Reference to Agreements

Each reference in this Security Agreement to any agreement (including this Security Agreement and any other defined term that is an agreement) shall be construed so as to include such agreement (including any attached schedules) and each amendment, supplement, other modification, amendment and restatement, novation and replacement of it made at or before the time in question.

2. GRANT OF SECURITY INTEREST

2.01 Security Interest

As general and continuing security for the due payment and performance of all Secured Obligations, the Debtor grants, assigns, conveys, hypothecates, mortgages, pledges and charges to and in favour of the Secured Party, and grants to the Secured Party a security interest in all rights of the Debtor in, to and under:

- (a) the Equipment;
- (b) the Leases;
- (c) all rents arising from any of the Leases or any sublease of Equipment;
- (d) all insurance proceeds arising from all policies of insurance in relation to the Equipment in which the Debtor now or hereafter has rights;
- (e) all proceeds arising out of a taking, condemnation, expropriation, requisition or appropriation by any Governmental Body under power of eminent domain or expropriation or otherwise with respect to the Equipment;
- (f) the Warranties;
- (g) all instruments and documents of title relating to the foregoing property and all logs and manuals and records of inspection, modification, maintenance and overhaul and component lists, if any, relating to the Equipment;
- (h) all Proceeds of any of the foregoing; and
- (i) all rights incidental to the ownership of any of the foregoing property, including rights of action to which the Debtor is now or is from time to time hereafter entitled.

BUT EXCLUDING, HOWEVER, from the Collateral any and all of the following:

- (i) any insurance proceeds payable under insurance maintained by the Debtor in addition to the insurance required to be maintained pursuant to the provisions of the Loan Agreement;
- (ii) any insurance proceeds (or governmental payments in lieu thereof) payable to the Debtor under any public liability insurance maintained by the Debtor or by any other Person;
- (iii) all right, title and interest of the Debtor in any Collateral that has been released from the security interest of this Security Agreement, whether by satisfaction of the obligations of the Debtor hereunder or under the Loan Agreement;
- (iv) any rights of the Debtor to demand, collect, sue for, or otherwise receive and enforce payment of the amounts described in the foregoing clauses (i) through (iii);
- (v) any rights of the Debtor to exercise any election or option or make any decision or determination or to give or receive any notice, consent, waiver, approval or other communication in respect of the foregoing clauses (i) through (iv); and
- (vi) the rights of the Debtor to the Proceeds of the foregoing.

The Security Interests are intended to constitute a first fixed charge upon the Collateral. The Debtor intends that the Collateral shall include and attach to all personal property described as Collateral above in which the Debtor or any successor of it (including, for greater certainty, any successor of the Debtor by merger, amalgamation or arrangement, including the Guarantor) now or hereafter has rights.

2.02 Attachment

The Debtor acknowledges that value has been given. The parties have not agreed to postpone the time for attachment and the Security Interests are intended to attach, as to all of the Collateral in which the Debtor now has rights, forthwith when the Debtor executes this Security Agreement and, as to all Collateral in which the Debtor only has rights after the execution of this Security Agreement, when the Debtor first acquires such rights.

2.03 Assignment of Leases

Without limiting Section 2.01, the Debtor hereby assigns to the Secured Party the Leases and all Proceeds thereof, including all amounts owing or to become owing thereunder, and together with the benefit of all obligations of the Guarantor as lessee under the Leases and of all rights of the Debtor as lessor thereunder. As assignee of the Leases, the Secured Party shall, without limitation, (a) be entitled to enforce performance of the Guarantor's obligations under

the Leases and to exercise the Debtor's rights to terminate the Leases and to repossession, re-lease, sale or other disposition of the Equipment leased thereunder in the event of a Default (as defined in the Leases) or the occurrence of an Event of Default, and (b) be entitled to the benefits of Section 106(5) of the *Canada Transportation Act* and Section 1168 of the U.S. *Bankruptcy Code* in relation to the Leases and the Equipment. Except as approved in writing by the Secured Party, the Debtor will not amend, supplement, otherwise modify, amend and restate, novate, replace, waive, suspend or terminate or agree to amend, supplement, otherwise modify, amend and restate, novate, replace, waive, suspend or terminate any of the Leases or any provision thereof, other than the amount of rent payable by the Guarantor under Section 3 of the Leases in accordance with the provisions thereof. Notwithstanding the foregoing assignment, the Debtor shall be entitled to administer the Leases and collect monthly rentals and other amounts from time to time owing thereunder unless and until an Event of Default referred to in Section 9.1(e) of the Loan Agreement occurs or unless and until the Secured Party otherwise notifies the Debtor and Guarantor in writing that any other Event of Default has occurred. In exercising any of the Secured Party's rights as assignee of the Debtor under the Leases, the Secured Party shall be entitled to do so in the name of the Debtor as its duly appointed attorney for such purpose or in its own name as agent for and on behalf of the Debtor.

3. REPRESENTATIONS AND WARRANTIES

The Debtor represents and warrants to and in favour of the Secured Party as follows:

3.01 Title

The Debtor is the sole legal and beneficial owner of the Collateral, free and clear of all Liens other than Permitted Liens.

3.02 Location of Debtor

The Debtor's chief executive office (as that term is used in subsection 7(4) of the PPSA and for purposes of the *Personal Property Security Act* (Alberta)) is located in the Province of Alberta. The Debtor has no other office other than its registered office.

3.03 Description of Equipment

Schedule B (as such Schedule may from time to time be amended, supplemented, otherwise modified, amended and restated, novated or replaced in order to add Substituted Equipment and delete Equipment substituted for) contains an accurate description of the Equipment, including road numbers thereof.

3.04 Reliance and Survival

All representations and warranties of the Debtor made herein shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect until

all of the Secured Obligations are paid and performed in full, and the Secured Party shall be deemed to have relied on such representations and warranties.

4. COVENANTS OF DEBTOR

4.01 Priority of Security Interests; Negative Pledge

The Debtor shall at all times maintain and keep the Security Interest as a valid and effective first priority fixed and perfected Lien in and upon the Collateral, free and clear of all Liens other than Permitted Liens.

The Debtor shall not sell, transfer, dispose of or lease Equipment or any right therein (except as provided in the Leases or as permitted in accordance with the Loan Agreement), or directly or indirectly create, incur, assume, permit or suffer to exist any Lien (except for Permitted Liens) on or with respect to any Collateral. The Debtor shall promptly, at its own expense, take such action or cause such action to be taken as may be necessary to duly discharge any Lien not excepted above if the same shall arise at any time. Neither the foregoing nor Section 3.01 shall in any way prevent the Secured Party from, at any time after an Event of Default occurs, contesting the validity, enforceability or priority of any Lien.

4.02 Maintenance and Use of Equipment

The Debtor shall maintain, repair, service and overhaul the Equipment, or cause the Equipment to be maintained, repaired, serviced or overhauled, in accordance with the provisions of Section 8.1(f) of the Loan Agreement. The Debtor shall ensure that the Equipment is only used in accordance with the provisions of Section 8.1(g) of the Loan Agreement.

4.03 Run-Through Agreements and Pooling

The Debtor shall not use the Equipment pursuant to run-through agreements or pooling agreements except in accordance with run-through agreements and pooling agreements with Class I railroads in Canada, the United States and (provided, subject to Subsections 6.3(c) and 8.1(g) of the Loan Agreement, not more than ten percent (10%) of the Equipment is operated in Mexico) Mexico which are customary for such Class I railroads.

4.04 Lease and Sublease

The Debtor shall not lease or sublease the Equipment except in accordance with the provisions of Section 8.1(i) of the Loan Agreement.

4.05 Insurance

The Debtor shall insure or self-insure for property damage and third-party liability with respect to all Equipment in compliance with its obligations under the provisions of Section 8.1(k) of the Loan Agreement.

4.06 Corporate Changes

The Debtor shall not amalgamate, merge or consolidate with any other Person, continue its corporate existence under the laws of any other jurisdiction (other than Alberta or Ontario), wind-up or dissolve or pass any resolution or take any other steps in connection with any of the forgoing, except for an amalgamation with or winding-up of the Debtor into the Guarantor as permitted by the Loan Agreement. It is the intent of the Debtor that the Secured Party, either as assignee of the Debtor under the Leases or directly following the amalgamation of the Debtor with or winding-up of the Debtor into the Guarantor, shall be entitled at all material times to the rights under Section 106(5) of the *Canada Transportation Act* and Section 1168 of the U.S. Bankruptcy Code and, if the Debtor proposes to operate more than ten percent (10%) of the Equipment in Mexico, the same such protection in Mexico, and that the Secured Party not be subject to any stay imposed under any bankruptcy or insolvency legislation, including the provisions of Section 69 or 69.1 of the *Bankruptcy and Insolvency Act* (and the corresponding provisions in the *Companies' Creditors Arrangement Act* and the *Winding-Up and Restructuring Act*) and Section 362 or 363 of the U.S. Bankruptcy Code. The successor or assign of the Debtor contemporaneously with any such amalgamation with or winding-up of the Debtor into the Guarantor shall execute such agreements (including any amendment, supplement, modification, amendment and restatement, novation or replacement of this Security Agreement) and take such actions (including Registrations with the U.S. Surface Transportation Board and the Registrar General of Canada and in the Canada Gazette and delivery of legal opinions from the Debtor's Counsel) as the Secured Party may require pursuant to Section 10.19 of the Loan Agreement.

4.07 Notice of Certain Changes

The Debtor will notify the Secured Party in writing at least 10 Business Days prior to any change of name of the Debtor (including any adoption of or change in any French version of the Debtor's name), and any change in the jurisdiction of the Debtor's chief executive office or principal places of business from that disclosed herein.

4.08 Substituted Equipment

The Debtor will deliver to the Secured Party at the time of substituting any Substituted Equipment, a supplemental security agreement in the form of Schedule 8.1(h) to the Loan Agreement and an updated version of Schedule B to reflect the details of such Substituted Equipment and showing any other additions to or deletions from the information required to be disclosed in Schedule B since the prior version thereof. Each such version shall be deemed to be part of this Security Agreement as of the effective date of the supplemental security agreement.

4.09 Road Numbers

The Debtor will not change the road number of any Equipment except in accordance with a statement of new road number to be substituted therefor, which statement shall be delivered to the Secured Party by the Debtor prior to such change together with an updated version of Schedule B identifying such new road number, and the Debtor will execute and deliver

such agreements, documents and instruments and effect such Registrations as are required or advisable to ensure that the Debtor (and the Secured Party as assignee of Leases) is entitled at all material times to the benefits of Section 106(5) of the *Canada Transportation Act* and Section 1168 of the U.S. Bankruptcy Code. The Debtor will not place any such Equipment in operation until such road numbers shall have been so numbered on both sides thereon and will replace promptly any such road numbers which may be removed, defaced, obliterated or destroyed.

4.10 Costs

The Debtor shall reimburse the Secured Party on demand for all interest, commissions, costs of realization and other costs and expenses (including reasonable legal fees and expenses on a solicitor and his own client basis) incurred by the Secured Party in connection with the perfection, protection, enforcement of and advice with respect to this Security Agreement, including those arising in connection with the realization, disposition of, retention, protection or collection of any Collateral and the protection or enforcement of the rights of the Secured Party or the compliance by the Secured Party with any obligations imposed upon the Secured Party with respect to this Security Agreement by any law, statute or regulation, including the PPSA.

4.11 Reimbursements as Secured Obligations

All amounts for which the Debtor is required hereunder to reimburse the Secured Party shall, from the date of disbursement until the date such Person receives reimbursement, be deemed to be advanced to the Debtor by the Secured Party, shall be deemed to be Secured Obligations and shall bear interest at the highest rate per annum charged by the Secured Party on any of the other Secured Obligations pursuant to the Loan Agreement.

4.12 General Indemnity

The Debtor will indemnify the Secured Party and its Representatives against, and save them harmless from, all losses and expenses which any of them may suffer or incur in connection with (i) the exercise of the Secured Party's rights hereunder, by the Secured Party or any of its Representatives, (ii) any breach of the representations or warranties contained herein, or (iii) any failure by the Debtor to perform any of its obligations under this Security Agreement, except to the extent the losses and expenses arise from the gross negligence or willful misconduct of the Secured Party or any of its Representatives.

4.13 Perfection of Security Interests

The Debtor shall Register, or cause to be Registered, this Security Agreement at the times and in the manner required under Sections 8.1(m) and (n) of the Loan Agreement.

4.14 Further Assurances

Without limiting any other provision hereof, the Debtor shall at all times do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, agreements and assurances as required by Applicable Law or reasonably requested by the Secured Party in order to give effect to the provisions of this Security Agreement and the rights in favour of the Secured Party expressly intended to be created hereby and by the Loan Agreement. The Debtor hereby authorizes the Secured Party to complete, sign on behalf of the Debtor (as registering agent or as attorney in the name of the Debtor) and record or file all Registrations that the Secured Party may deem necessary or desirable with respect to perfecting, preserving or protecting the Security Interests or this Security Agreement.

5. DEFAULT

5.01 Default

Whenever any Event of Default occurs, the Security Interests shall at the option of the Secured Party become immediately enforceable without the necessity for any further action or notice by the Secured Party. If an Event of Default referred to in Section 9.1(e) of the Loan Agreement occurs, unless the Secured Party notifies the Debtor to the contrary, the Security Interests shall become immediately enforceable without any action on the part of the Secured Party being required. The Secured Party shall not be obliged to exhaust its recourse against the Debtor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such a manner as the Secured Party may consider desirable. The powers conferred on the Secured Party under this Security Agreement are solely to protect the interests of the Secured Party and will not impose any duty upon the Secured Party to exercise any such powers.

5.02 Waiver

Subject to Section 9.3 of the Loan Agreement, the Secured Party may waive any Default. No waiver, however, shall be deemed to extend to a subsequent Default, whether or not the same as or similar to the Default, and no act or omission by the Secured Party shall extend to, or be taken in any manner whatsoever to affect, any subsequent Default or the rights of the Secured Party arising therefrom. Any such waiver must be in writing and signed by the Secured Party to be effective. No failure on the part of the Secured Party to exercise, and no delay by the Secured Party in exercising, any rights under this Security Agreement shall operate as a waiver of such rights. No single or partial exercise of any such rights shall preclude any other or further exercise of such rights or the exercise of any other rights.

6. REMEDIES ON DEFAULT

If the Security Interests become enforceable, the Secured Party shall have the following rights:

6.01 Agent

The Secured Party may appoint by instrument in writing one or more Representatives in respect of any Collateral, each of whom shall be the agent of the Secured Party and may exercise the rights set out in this Article 6 on behalf of the Secured Party.

6.02 Power of Entry

The Debtor shall forthwith upon demand deliver to the Secured Party possession of any Collateral at the place specified by the Secured Party. The Secured Party may at any time enter upon any premises where any Collateral is located to take possession of, disable or remove any Collateral, and may use whatever commercially reasonable means the Secured Party considers advisable to do so. The Debtor shall forthwith on demand of the Secured Party deliver each item of Equipment to such interchange on the Guarantor's railway lines as the Secured Party shall require. For greater clarity, in exercising any of the rights granted to the Secured Party and its Representatives under this Security Agreement, the Secured Party acknowledges and agrees that neither the Secured Party nor its Representatives shall have any rights over or access to any of the Debtor's bank accounts or general assets and cannot themselves move the Equipment over any of the Debtor's other property, including any of the Debtor's railway lines, or to use any of the tools or equipment owned or leased by the Debtor in respect of the maintenance of the Equipment.

6.03 Power of Sale

The Secured Party may sell, lease or otherwise dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor to the extent permitted by Applicable Law. Notwithstanding the foregoing, the Secured Party must notify the Debtor of the date after which any sale, lease or other disposition of Collateral may take place, which date must be no earlier than 30 days after the date such notice is given. The Secured Party may, at its discretion establish the terms of such disposition, including terms and conditions as to credit, upset, reserve bid or price. All payments made pursuant to such dispositions shall be credited against the Secured Obligations only as they are actually received. The Secured Party may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again. Any such disposition may take place whether or not the Secured Party has taken possession of the Collateral.

6.04 Operation and Use of Collateral

The Secured Party may, from time to time, at the cost and expense of the Debtor, maintain, insure, repair, replace, alter and make additions and improvements to any of the

Collateral as it may in its sole discretion deem appropriate; and shall have the right to use, operate, store, lease, control or manage the Collateral, to terminate any or all of the Leases and subleases and to exercise all rights of the Debtor as owner relating to the Collateral as the Secured Party may deem appropriate (including the right to enter into any and all such agreements with respect to the use, operation, storage, lease, control, management, maintenance and repair of the Collateral or any part thereof as the Secured Party deems appropriate), and the right to collect and receive directly all rents, profits, tolls, revenues and other income and proceeds of the Collateral, and to apply the same to the costs and expenses incurred by the Secured Party in that regard, and to discharge any prior Liens, taxes and assessments with respect thereto, and to hold the same as part of the Collateral and apply it to Secured Obligations as it sees fit. The Secured Party shall not be liable to the Debtor for any rent, charges, costs, depreciation or losses and expenses in connection with any such action except to the extent of damages due to gross negligence or willful misconduct of the Secured Party.

6.05 Dealing with Collateral

Subject only to any applicable approval or consent of any Governmental Body required by Applicable Law, the Secured Party may seize, collect, realize, dispose of, enforce, release or transfer to or from third parties or otherwise deal with any Collateral in such manner, upon such terms and conditions and at such time as it deems advisable without notice, demand or other formality to the Debtor (except as otherwise required by any Applicable Law or by Section 6.03), and may charge on its own behalf and pay to others its costs or expenses (including reasonable legal fees and expenses on a solicitor and his own client basis) and the fees and disbursements of its Representatives incurred in connection with such actions. The Debtor will forthwith upon demand reimburse the Secured Party for all such costs or expenses.

6.06 Right to Have Court Appoint a Receiver

The Secured Party may, at any time, apply to a court of competent jurisdiction for the appointment of a Receiver, or other official, who may have powers the same as, greater or lesser than, or otherwise different from, those granted to the Secured Party pursuant to this Security Agreement.

6.07 Retention of Collateral

Subject to Applicable Law, the Secured Party may elect to retain the Collateral in satisfaction of the Secured Obligations.

6.08 Limitation of Liability

The Secured Party shall not be liable or accountable for any failure to seize, collect, realize, dispose of, enforce, use, operate or otherwise deal with any Collateral and shall not be bound to institute proceedings for any such purposes or for the purpose of preserving any rights of the Secured Party, the Debtor or any other Person in respect of any Collateral. The Secured Party shall not be liable or responsible for any losses and expenses whatever which may accrue in consequence of any such failure or otherwise with respect to the Collateral (including

Collateral in the possession of the Secured Party) except to the extent that any such losses and expenses is a result of the gross negligence or willful misconduct of the Secured Party. If the Secured Party takes possession of any Collateral, the Secured Party shall not have any liability as a mortgagee in possession or be accountable for anything except actual receipts.

6.09 Extensions of Time

The Secured Party may grant renewals, extensions of time and other indulgences, take and give up security interests, accept compositions, grant releases and discharges, perfect or fail to perfect any security interests, release any Collateral to third parties and otherwise deal or fail to deal with the Debtor, debtors of the Debtor, guarantors, sureties and others and with any Collateral and other securities as the Secured Party may see fit, all without prejudice to the liability of the Debtor to the Secured Party or the Secured Party's rights under this Security Agreement.

6.10 Application of Payments against Secured Obligations

Any payments received by the Secured Party in respect of the Secured Obligations from time to time after an Event of Default has occurred, any insurance monies received after an Event of Default has occurred and any monies realized on any Collateral may, notwithstanding any appropriation by the Debtor, be appropriated to such parts of the Secured Obligations and in such order as the Secured Party sees fit, and the Secured Party shall have the right to change any appropriation at any time. After an Event of Default has occurred, any such insurance moneys may, at the option of the Secured Party, be used to repair or replace any Collateral, be held as part of the Collateral or be appropriated to the Secured Obligations.

6.11 Set-Off, Combination of Accounts and Crossclaims

The Secured Obligations will be paid by the Debtor without regard to any equities between the Debtor and the Secured Party, and without regard to any right of set-off, combination of accounts or cross-claim.

6.12 Deficiency

If the proceeds of the realization of any Collateral are insufficient to pay all monetary Secured Obligations, the Debtor shall remain liable for such deficiency and shall forthwith, upon receiving notice in writing from the Secured Party of the amount of such deficiency, pay or cause to be paid to the Secured Party any deficiency.

6.13 No Duty to Inquire

No Person dealing with the Secured Party, or with any Representative of the Secured Party, shall be concerned to inquire whether the Security Interests have become enforceable, whether any right of the Secured Party has become exercisable, whether any Secured Obligations remain outstanding or otherwise as to the propriety or regularity of any dealing by the Secured Party with any Collateral or to see to the application of any money paid to the

Secured Party, and in the absence of fraud on the part of such Person such dealings shall be deemed, as regards such Person, to be within the rights hereby conferred and to be valid and effective accordingly.

6.14 Effect of Repossession

As soon as the Secured Party takes possession of any Collateral or a Receiver is appointed pursuant to Section 6.06, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to the Collateral shall cease, unless specifically continued by the written consent of the Secured Party or the Receiver.

6.15 Statutory Waivers

To the fullest extent permitted by Applicable Law, and except as otherwise provided herein, the Debtor waives all of the rights, benefits and protections given by the provisions of any existing or future statute which imposes limitations upon the rights of a secured party after default or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute.

6.16 Secured Party May Perform

The Debtor hereby irrevocably appoints the Secured Party to be its attorney, with full powers of substitution and revocation, in the name and on behalf of the Debtor to execute any documents and to do any acts and things which the Debtor is required to execute and do, but has not executed or done, under this Security Agreement. Notwithstanding the foregoing authority and power, the Secured Party will not be obligated to do so or be liable for any failure to do so. Despite anything else in this Security Agreement, and for greater certainty, the Debtor shall remain liable under all agreements to which the Debtor is a party or by which it or any Collateral is bound and shall perform all of its obligations thereunder, and shall not be released from any of its obligations under such agreements by the exercise of any rights by the Secured Party. The Secured Party shall not have any obligation under any such agreement by reason of this Security Agreement, nor shall the Secured Party be obliged to perform any of the obligations of the Debtor thereunder or to take any action to collect or enforce any obligation or right thereunder or to enforce any claim for payment assigned hereunder. The rights conferred on the Secured Party hereunder are for the purpose of protecting its interest in the Collateral and shall not impose any duty upon it to exercise any such powers.

6.17 Rights in Addition

The rights conferred by this Article 6 are in addition to, and not in substitution for, any other rights the Secured Party may have under this Security Agreement or any other agreement, or at law, in equity or by or under the PPSA, the *Canada Transportation Act*, the U.S. Bankruptcy Code or any other statute. The Secured Party may proceed by way of any action, suit or other proceeding at law or in equity and no right of the Secured Party shall be exclusive of or dependent on any other. The Secured Party may exercise any of its rights separately or in combination and at any time.

7. GENERAL

7.01 Security in Addition

The Security Interests do not replace or otherwise affect any existing or future Lien held by or on behalf of the Secured Party. Neither the taking of any action, suit or proceedings, judicial or extra-judicial, nor the refraining from so doing, nor any dealing with any other security for any Secured Obligations shall release or affect the Security Interests. Neither the taking of any action, suit or proceedings, judicial or extra-judicial, pursuant to this Security Agreement, nor the refraining from so doing, nor any dealing with any Collateral shall release or affect any other security interest or collateral held by or on behalf of the Secured Party for the payment or performance of any Secured Obligation.

7.02 No Merger

Neither the taking of any judgment nor the exercise of any power of seizure or disposition shall extinguish the liability of the Debtor to pay and perform the Secured Obligations nor shall the acceptance of any payment or alternate security constitute or create any novation. No covenant, representation or warranty of the Debtor herein shall merge in any judgment.

7.03 Notices

Any notice, demand or other communication (in this Section, a "notice") under this Security Agreement shall be in writing and shall be delivered to it in accordance with, and to its address from time to time in effect for the purposes of, Section 10.7 of the Loan Agreement.

7.04 Time of the Essence

Time is of the essence with respect to each provision of this Security Agreement.

7.05 Governing Law

This Security Agreement shall be governed by, and interpreted and enforced in accordance with, the laws in force in the Province of Ontario, including the federal laws of Canada applicable therein, (excluding any conflict of laws rule or principle which might refer such construction to the laws of another jurisdiction). Such choice of law shall, however, be without prejudice to or limitation of any rights available to the Secured Party under the laws of any jurisdiction where Collateral may be located.

7.06 Security Interests Effective Immediately

The Security Interests shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

7.07 Invalidity

If any provision of this Security Agreement is determined to be invalid or unenforceable by a court of competent jurisdiction from which no further appeal lies or is taken, that provision shall be deemed to be severed herefrom, and the remaining provisions of this Security Agreement shall not be affected thereby and shall remain valid and enforceable.

7.08 Amendment

This Security Agreement may only be amended or supplemented by a written agreement signed by the Debtor and the Secured Party.

7.09 Binding Effect

This Security Agreement shall enure to the benefit of the Secured Party and its successors and assigns and shall bind the Debtor and its successors and permitted assigns (including the Guarantor upon the amalgamation of the Guarantor with the Debtor or the wind-up of the Debtor into the Guarantor). Each reference to the Debtor in this Security Agreement shall be construed so as to include such successors of the Debtor to the extent the context so admits.

7.10 Receipt of Copy


The Debtor acknowledges receipt of an executed copy of this Security Agreement.

7.11 Information

At any time the Secured Party may provide to any Person reasonably believed by the Secured Party to be entitled under Section 18 of the PPSA (or under any similar provision of any other Applicable Law) copies of this Security Agreement or information about it or about the Secured Obligations in accordance therewith.

TO WITNESS this Security Agreement, the Debtor has caused it to be duly signed and sealed.

3517021 CANADA INC.

by: 
 Name:
 Title:

SCHEDULE A

Definitions

"Collateral" means the property which is described in paragraphs (a) to (i) inclusive of Section 2.01, and any item or part thereof.

"Equipment" means all Initial Equipment and Substituted Equipment, including all accessories, appurtenances, accessions, improvements, additions and replacements from time to time incorporated or installed in any item thereof, and any item or part thereof. Equipment which is released from the Security pursuant to Section 8.1(h) or 10.18 of the Loan Agreement shall cease to constitute Equipment for purposes of this Security Agreement from that time onward.

"Initial Equipment" means each of the 65 new General Motors SD 90-MAC diesel electric locomotives delivered to the Debtor between October 1, 1998 and April 30, 2000 and which are listed in Schedule B as attached hereto on the date of the original execution hereof.

"Leases" means the lease agreements pursuant to which the Debtor leases any of the Equipment to the Guarantor.

"Loan Agreement" means the Loan Agreement made as of July 24, 2000 between the Debtor and the Secured Party.

"PPSA" means the *Personal Property Security Act* of the Province of Ontario, and the regulations pursuant thereto.

"Proceeds" means all real or personal property and proceeds in any form derived directly or indirectly from any dealing with any item or part of the Collateral, or that indemnifies or compensates for such property, proceeds or Collateral destroyed, damaged, seized, expropriated or taken, including insurance proceeds, and proceeds of Proceeds whether or not of the same type, class or kind as the original Proceeds, and any item or part thereof.

"Receiver" means any receiver, manager or receiver and manager for the Collateral appointed by a court of competent jurisdiction on application by the Secured Party.

"Secured Party" includes any assignee or successor to the Secured Party named on the first page of this Security Agreement.

"Security Agreement" means this general security agreement and all Schedules attached hereto. All uses of the words "hereto," "herein," "hereof," "hereby" and "hereunder" and similar expressions refer to this Security Agreement and not to any particular section or portion of it.

"Security Interests" means any and all Liens granted by the Debtor to the Secured Party in this Security Agreement.

"Substituted Equipment" has the meaning attributed thereto in the Loan Agreement, and includes any equipment not forming part of the Initial Equipment and which is identified in any supplement hereto or in any amended or amended and restated or updated version of Schedule B.


"Warranties" means all obligations of the manufacturer of Equipment to the Debtor, including those arising in contract or tort and all warranties given or made by the manufacturer of Equipment, including those warranties (express and implied) arising under, by reason of or otherwise in respect of the purchase agreement dated February 27, 1998 and the purchase order modification agreement dated July 2, 1999 and the purchase agreement dated as of December 23, 1999 made between Canadian Pacific Railway Company and Diesel Division, General Motors of Canada Limited pursuant to which the Debtor has purchased the Initial Equipment, including the bills of sale for the Equipment issued pursuant thereto, and all rights of the Debtor therein or thereto or arising under or in connection therewith.

SCHEDULE B**Description of Locomotives**

| <u>Make</u> | <u>Model</u> | <u>Type</u> | <u>Road Number</u> |
|--------------------|---------------------|--------------------|------------------------------|
| General Motors | SD-90 MAC 4300 | Diesel Electric | CP9100 to CP9160 (inclusive) |
| General Motors | SD-90 MAC 6000 | Diesel Electric | CP9300 to CP9303 (inclusive) |

Individual Form of Acknowledgment

I, BRIAN R. MCDIARMID, certify that I am the person described in and who executed the foregoing instrument and that I acknowledge that I executed the same as my free act and deed. I further declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on July 18, 2000.


Signature